# HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation
www.cmhc.ca

## New Home Market

### New housing market shows strength - Single-family starts remain vigorous in 2005 and 2006

CMHC is forecasting another two years of strong single-family housing starts reaching 700 starts in 2005 and 2006. Employment growth is encouraging in-migration and rising household income. These positive economic conditions, combined with the continued availability of low rate mortgage financing, are creating an environment conducive to strong demand for homeownership.

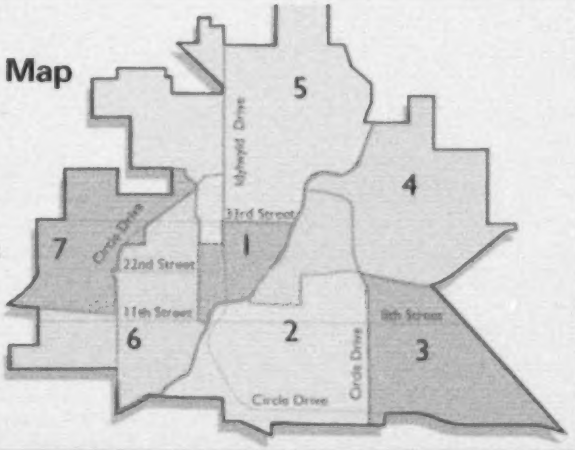
The total supply (including units under construction and units completed and unoccupied) is now at a level sufficient to last close to six months, a balanced market state. A balanced market is subject to neither over nor under-supply. Buyers can expect to move in to their completed unit in a reasonable time period and builders can maintain an inventory of homes with steady turnover.

Saskatoon home builders are seeing the highest rates of absorptions since 1988. Single-family homes have been absorbed at a rate of 60 to 64 units per month since mid-2004. Single-family home absorptions hit close to 700 units in 2004, closely matching 2003 volumes.

A moderating influence to this strong demand will be introduced by higher

### Saskatoon CMA Map

| | |
|---|---|
| Zone 1 | Central |
| Zone 2 | Nutana |
| Zone 3 | Lakeview |
| Zone 4 | Northeast |
| Zone 5 | North |
| Zone 6 | Southwest |
| Zone 7 | West |




## SASKATOON

SPRING 2005

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Movement of empty-nesters and seniors to new condominium developments will provide a plentiful supply of existing homes. Annual sales will remain above 3,000 units over the forecast period. Price gains will stay ahead of the overall rate of inflation.

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The overall vacancy rate will decline slightly over the forecast horizon. However, average vacancy will not go down to the one per cent level seen in 1999.

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land and materials costs. An increased inventory of resale listings will prompt some first-time and move-up buyers to consider the less expensive (and more traditional) alternative of existing housing.

There is some concern that a restriction in the availability of skilled trades and serviced land may hinder the ability of builders to maintain production levels. The two major land developers in Saskatoon have brought new subdivisions to the market and are offering a range of prices to consumers, addressing one of these concerns.

### Average price of new housing units escalates

Single-family average price is forecast to increase in excess of nine per cent annually in 2005 and 2006. Increasing land development costs, fees, taxes and materials costs will be major contributors to a higher average price. In addition, purchasers of new homes are demanding higher quality building components and features further contributing to the rise in average price.

Although the number of absorptions has changed little, there is an increasing share of absorptions in the price ranges in excess of $200,000. The market share of homes priced $200,000 and up increased from 30 per cent in 2003 to 33 per cent in 2004. This is a trend we expect to continue in 2005 and 2006.

### Apartment condominiums to dominate multi-family housing

Multi-family starts will number 850 units in 2005 but fall back to 600 units in 2006. Multi-family starts will closely match that seen in 2004 but a build-up in inventory will cause starts to take a breather in 2006, allowing time for completion of units under construction and their eventual absorption.

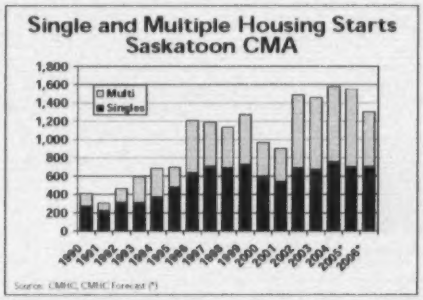
Almost all of these forecast multi-family starts will be condominium tenure, a lifestyle which is now firmly entrenched as a desirable form of ownership in Saskatoon. Condominium starts captured 47 per cent of the total housing starts in 2004, up from 41 per cent in 2003 and 2002 and only 36 per cent in 2001.

Apartments have, once again, overtaken rows as the dominant form of condominium housing in Saskatoon. Recent statistics show more than 350 of these units under construction representing an 18 month supply at an absorption trend of 21 units monthly. This duration of supply is not out of line with historic levels for this time of year and is characteristic of balanced market conditions.

### Empty-nesters and seniors form target market for apartment condominiums

With average prices of almost $141,000 in 2004, the target market for these relatively high-end suites is clear. Discussions with condominium developers and sales people indicate empty-nesters and seniors have transferred their equity from the sale of their existing homes into the purchase of these luxury condominium units. We expect this trend to continue as a larger proportion of the population moves into older age groups.

Row housing production peaked in 2003 capturing more than 67 per cent of the condominium starts but fell off sharply in 2004 with a condominium market share of 44 per cent. These modest units with an average price of close to $116,000 in 2004 appealed to first-time home-buyers and singles looking for an inexpensive alternative to rental. There is also anecdotal evidence that small investors have purchased these units as an easy way to acquire an investment in real estate.




This limited market now appears to be exhausted.

Notwithstanding these negative factors, the row construction market does not appear to be overbuilt and there is evidence it is coming in for a soft landing. The supply of newly completed and unoccupied units combined with units under construction has reached a 10 or 11 months supply given the current absorption trend which is characteristic of a balanced state. Furthermore, no row housing starts have taken place in the first quarter of 2005.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# RESALE MARKET

## Resale market remains balanced in 2005 and 2006

New listings activity bounced back in 2004 to 391 listings monthly and is forecast to stay at that tempo in 2005. The rate at which new listings are generated will fall back slightly in 2006 to 380 units monthly, still higher than that seen in 2002 and 2003. Movement of empty-nesters and seniors from their existing homes to new condominium developments will provide a plentiful supply of existing homes that will sustain sales activity. At the end of the first quarter, listings have performed according to expectation with new listings generated in line with 2003.

### Sales volumes to rise in 2005 and 2006

Seasonally adjusted sales have been slow, off four per cent compared with the first quarter of 2003. Our forecast

calls for resales to rise to 3,200 sales in 2005 and 3,400 in 2006 on the strength of increased supply, more choice and renewed demand from first time-buyers facing increased prices for new housing. Employment gains and in-migration will add to these factors.

### Real growth in average resale price forecast

Our forecast calls for average price growth of 6.4 per cent in 2005 and 5.0 per cent in 2006. As more seniors move from their older existing homes into the many new condominium and assisted living units now on the market, we expect there will be a shift in sales to older, lower-priced property causing some moderation in average price gains in 2006.

In 2004, the trend toward sales in the higher price ranges continued, with sales in the price range of $140,000 to $159,999 increasing almost 18 per cent compared to the end of 2003.

Average listing periods before a sale takes place are within a range of 30 to 40 days. Considering real increases in price and other characteristics of the resale market, CMHC is forecasting balanced markets to prevail throughout the forecast period.

### Existing house prices rising but still within reach of many households

Home ownership costs will increase heading toward 2006 in the face of rising mortgage rates and higher house prices. Over the last six years, low mortgage rates have helped offset rising prices in both the new and existing home markets. CMHC is forecasting modest gains in mortgage interest rates in 2005 and 2006. Rising rates, combined with further average price increases for existing homes, may price some buyers out of the market, tempering ownership demand.

CMHC estimates that the income required to service the debt on an existing home purchased at the 2005 average selling price was almost $32,000. In 2006, based on the popular NHA 95 per cent mortgage, the principal and interest payment on an existing home selling for the forecast average selling price, will increase from $850 to $890 monthly and require an annual income of just over $33,000. Despite the rising costs of buying and owning a home, overall carrying costs in Saskatoon will remain one of the lowest among cities in Western Canada.

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# RENTAL MARKET

## Rental market struggles with historically high vacancy rates

*Average vacancy rate slips to 5.5 per cent in 2005 and 5.0 per cent in 2006*

Higher in-migration and rising prices discouraging homeownership will cause average vacancy rates to moderate to 5.5 per cent in 2005 and 5.0 per cent in 2006.

Two factors will prevent average vacancy from finding the one per cent level seen in 1999 when Saskatoon CMA had the lowest vacancy rate among CMA's in Canada. Firstly, southwest Saskatoon has a large number of projects experiencing a cycle of high vacancy and low rents. Historically, this zone has had the highest vacancy rate in the city. Secondly, new and modestly priced row units are being purchased by small investors and rented to students and young couples. This has resulted in an increased supply of more desirable ground-oriented rental units, thereby reducing the

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demand for traditional walk-up apartments.

### Potential for rent increases restrained by plentiful supply

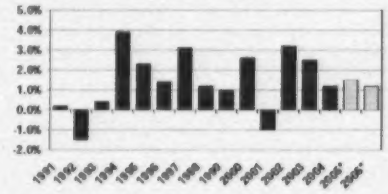
Based on the economic outlook for key industries, income prospects are good. As a result, average rent in Saskatoon is projected to remain the same in 2005 and rise only little in 2006. The competitive nature of the rental market produced by a plentiful supply of rental property and the availability of relatively inexpensive resale housing will restrain potential rent gains in both forecast years.

Operating and maintenance costs are increasing for all types of rental housing but the ability to obtain rent increases and the level of rent increases will depend on the household income in the area of the city where the project is located.

## MORTGAGE RATE OUTLOOK

Short-term mortgage rates move in tandem with the prime rate while mid- and longer-term rates vary in response to the cost of raising funds in the bond markets. Posted mortgage rates are forecast to rise moderately as interest rates head higher in 2005-06. However, tame inflation, a strong Canadian dollar vis-a-vis the U.S. dollar and slower economic growth in Canada will restrain the size and the speed of Canadian mortgage rate increases over the forecast period. Mortgage rates are expected to rise by less than 50 basis points annually this year and next. One, three, and five-year rates are forecast to be in the 4.50-5.50, 5.50-6.50 and 5.75-6.75 per cent range respectively in 2005. However, rising posted mortgage rates will not necessarily lead to higher rates negotiated between borrowers and lenders.

**Change in Total Average Employment**
Saskatoon CMA




Source: Statistics Canada, CMHC Forecast (*)

# ECONOMIC OVERVIEW

## Employment growth of 1,800 jobs expected in 2005

Total employment will rise by 1,800 jobs in 2005 and 1,500 in 2006. Income gains will translate into greater consumer spending next year and aid employment in the retail trade sector. The outlook for employment in the Mining, Oil and Natural Gas sectors is optimistic due to improved world markets for uranium and potash and rising oil and natural gas prices. Manufacturing exports will continue to benefit from continued growth of the world economy.

Final figures from Statistics Canada indicate Saskatoon experienced employment gains of 1.2 per cent or an average of 1,500 additional employed in 2004. The Goods Sector grew by more than 2,700 employed, mainly in the Manufacturing sector which saw 1,100 additional employed. Losses of 1,100 employed in the Service Sector erased some of these gains leaving total employment largely unchanged from 2003. The Public Sector recorded a net loss of 1,100 employed and Finance Insurance and Real Estate lost 700. There were Service Sector gains in Transportation and Health Care.

### Construction Sector sees employment gains

The Construction Sector ended the year at 6,800 employed, gaining about 600 employed over the 2003 average employment figure. Unemployment is rising in this sector, suggesting trades people are staying in the city and looking for work after contracts end, rather than out-migrating.

The addition of jobs in the Goods sector has also benefited income gains as jobs in this sector tend to pay higher wages than the overall Service Sector. Average weekly earnings increased more than three per cent in 2004, recovering from a no growth period in 2003. These income gains bode well for future household formation and housing demand.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# CMHC FORECAST SUMMARY

## Saskatoon Housing Market Outlook - Spring 2005

| | 2002 | 2003 | %Chg | 2004 | %Chg | 2005* | %Chg | 2006* | %Chg |
|---|---|---|---|---|---|---|---|---|---|
| **RESALE MARKET** | | | | | | | | | |
| MLS®(1) new listings (Monthly Avg.) | 355 | 365 | 2.8% | 391 | 7.1% | 390 | -0.3% | 380 | -2.6% |
| Total MLS® Sales | 2,941 | 2,848 | -3.2% | 2,999 | 5.3% | 3,200 | 6.7% | 3,400 | 6.3% |
| Average MLS Price | $118,999 | $125,191 | 5.2% | $132,549 | 5.9% | $138,000 | 4.1% | $144,000 | 4.4% |
| **NEW HOME MARKET** | | | | | | | | | |
| Starts | | | | | | | | | |
| Total | 1,489 | 1,455 | -2.3% | 1,578 | 8.5% | 1,550 | -1.8% | 1,300 | -16.1% |
| Single-family | 691 | 676 | -2.2% | 753 | 11.4% | 700 | -7.0% | 700 | 0.0% |
| Multiple-family | 798 | 779 | -2.4% | 825 | 5.9% | 850 | 3.0% | 600 | -29.4% |
| Average New House Price | | | | | | | | | |
| Single-family | $176,409 | $184,610 | 4.6% | $199,877 | 8.3% | $218,000 | 9.1% | $238,000 | 9.2% |
| **RENTAL MARKET** | | | | | | | | | |
| Vacancy rate (Oct) -Per cent | 3.7 | 4.5 | | 6.3 | | 5.5 | 5.0 | | |
| 2-bedroom Rent (Annual %Chg) | 1.6 | 1.6 | | 0.7 | | 0.0 | | 1.7 | |
| **ECONOMIC OVERVIEW** | | | | | | | | | |
| Mortgage rate (3 yr term) | 6.28 | 5.79 | | 5.65 | | 5.81 | | 6.28 | |
| Mortgage rate (5 yr term) | 7.02 | 6.39 | | 6.23 | | 6.28 | | 6.72 | |
| Employed | 117,800 | 120,700 | 2.5% | 122,200 | 1.2% | 124,000 | 1.5% | 125,500 | 1.2% |
| Employment growth (# jobs) | 3,700 | 2,900 | | 1,500 | | 1,800 | | 1,500 | |
| Net-migration (Census Year) | -90 | 913 | | 500 | | 500 | | 500 | |

* CMHC Forecast

Source: CMHC, Statistics Canada, Edmonton Real Estate Board

1 Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.


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